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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE - JANUARY 21
- JANUARY 25

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STOCK MARKET STABILIZES AFTER A VERY VOLATILE WEEK

11. (U) Spain's Ibex-35 stock index rose by a relatively minor 0.3 percent on Friday to bring the net decline in a very volatile week to 3.8 percent. The index fell 7.5 percent on Monday, rose 1.7 percent on Tuesday, fell 4.6 percent on Wednesday and jumped a one-day record 7 percent on Thursday. The ups and downs of the Spanish market have been pretty close to movements in other major European stock markets. (Comment: The reality is that nobody knows how the markets will perform in the short-term. It is significant though that Spanish equities' performance is tracking, for better or for worse, more consistently with other European stock markets. This may be a sign that investors expect Spanish economic performance to be closer to the Eurozone's average than it has been in years past. Having said that, although 2008 growth rates are being revised downwards for most countries, Bloomberg and the World Bank are still forecasting 2.8% economic growth for Spain in 2008 vice 2.0% for France, 1.7% for Germany, and a 2.0% average growth rate for the Eurozone. Even so, lower growth in Spain means less construction activity and higher unemployment. This helps explain why economic issues have somewhat unexpectedly become more prominent in the Spanish election debate.) (Expansion, 1/24/08 and 1/25/08)

UNEMPLOYMENT INCREASED TO 8.6 PERCENT IN 2007 Q4

12. (U) The National Statistics Institute (INE) reported that the unemployment rate rose to 8.6 percent in the fourth quarter of 2007, up from 8.05 percent the previous quarter. In 2007 as a whole, the number of people employed and the number of unemployed both rose, the latter by 6.5 percent. Minister of Labor and Social Affairs Jose Luis Caldera noted on January 24 that the unemployment rate increase was indeed

an unfavorable statistic, but he pointed to the job growth and a decreasing level of temporary work contracts. (Comment: This jump in unemployment levels will provide more ammunition to the opposition Partido Popular in its campaign for the March 9 general elections. See reftel for more background.)

TOURISM IN 2007: MORE TOURISTS BUT LESS MONEY...

13. (U) Spain hosted 59.7 million international tourists in 2007, 1 million more than in 2006. The increase is attributed to the growth of low-cost airline flights to Spain. Despite this, total spending slipped by 0.7 percent to 37.2 billion euros, continuing a trend of recent years of less spending per tourist. Spain is the world's second leading international tourist destination (second to France in number of visitors, second to the U.S. in revenues), and the sector accounts for 12 percent of GDP.

...AND LOW-COST AIRLINES BROUGHT 24 MILLION OF THEM

14. (U) Low-cost airlines brought 24 million passengers to Spain in 2007, a 34 percent increase over their 2006 total. The top five such airlines were Ryanair with 5.4 million passengers, EasyJet with 4.2 million, Air Berlin, Vueling (Spanish), and Iberia subsidiary Clickair with 1.2 million. The competition from low-cost airlines has caused some major airlines like Iberia, Spanair, Lufthansa, and Air France to cut flights to Spain, and the total number of passengers the traditional airlines brought to Spain fell by 3 percent. Low-cost airlines now have 40 percent of the market and are expected to soon reach 50 percent. Catalonia and the Balearic Islands were the preferred "low-cost" destination regions, with a combined 11 million travelers, with Andalucia third. Most of the passengers were British (8 million) or German (6.2 million), with significant numbers of Italians (2.3 million) and Dutch (1.5 million) as well. (El Pais)

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VEHICLE MANUFACTURING ROSE BY 4 PERCENT

15. (U) Total Spanish motor vehicle production rose 4 percent in 2007 to 2.89 million units. This was the country's fourth highest total ever. The Spanish Association of Automobile and Truck Manufacturers expects an increase of 1 to 2 percent in 2008. Spain is the world's seventh largest vehicle manufacturer and the third largest in the EU.

PERUVIAN PRESIDENT ALAN GARCIA SEEKS SPANISH INVESTORS

16. (U) President Garcia's main mission in his January 20-21 visit to Spain was to promote joint business opportunities. During his first visit to Spain, he met with Spanish businessmen in hopes of obtaining additional investors from the energy and industrial sectors. President Zapatero commended Garcia's economic and investment policies and offered his support to speed up negotiations between Latin America and the EU. (all media)

CHINESE FIRM TO INVEST IN SOLAR ELECTRICITY PROJECTS

17. (U) Chinese electrical engineering firm Chint plans to take stakes in a solar panel producing factory in Murcia and a number of solar farms. The factory and farms will use Chint technology. Firms from Germany, Austria, Israel, Britain, and Japan are also investing in Spain's renewable energy sector, which benefits from government price guarantees. The country's installed capacity of solar panels has risen ten-fold since 2005, and energy regulators estimate that 2 billion euros has been invested in solar projects. While current solar electricity production remains small, the installed capacity of solar panels is expected to reach 500 MW by the end of this year and 1,000 MW by 2010, when it will represent about one percent of the country's total electricity generating capacity. (Financial Times 01/19/2008)

